Office - Supreme Court, U.S.
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No. 80-2092

In the Supreme Court of the United States

OCTOBER TERM, 1981

SCM CORPORATION, PETITIONER

v.

XEROX CORPORATION

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

BRIEF FOR THE UNITED STATES AS AMICUS CURIAE

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QUESTIONS PRESENTED

1. Whether a party's unilateral refusal to license patents which give it an economic monopoly violates Section 1 or 2 of the Sherman Act or Section 7 of the Clayton Act solely because the patents were acquired rather than the product of the party's invention, when the acquiring firm lacked market power at the time of the acquisition.

2. Whether a patent acquisition, lawful when made because the acquiring firm lacked any market power, may be held to violate Section 7 of the Clayton Act, or Section 1 or 2 of the Sherman Act, at a later date, if the patents eventually contribute to the acquisition or maintenance of monopoly power.

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This brief is filed in response to the Court's invitation to the Solicitor General to express the views of the United States.

STATEMENT

In 1973, petitioner SCM Corporation sued Xerox Corporation for alleged violations of Sections 1 and 2 of the Sherman Act, 15 U.S.C. 1 and 2, and Section 7 of the Clayton Act, 15 U.S.C. 18. SCM alleged that by 1969 Xerox had willfully acquired monopoly power in and excluded SCM from a relevant product market consisting of plain and coated-paper convenience office copiers and a relevant submarket of plain-paper copiers (Pet. App. 13a). SCM sought treble damages and injunctive relief.

The only issues raised in the petition concern the legality of a 1956 agreement that gave Xerox exclusive rights to patents on the process of electrophotography that came to be known as xerography (Pet. 2).

1. The xerography process was invented and patented by Chester Carlson in the 1930's (Pet. App. 4a). After 18 futile attempts to find a commercial enterprise interested in investing in further development, in 1944 Carlson assigned his patents to a nonprofit research organization, Battelle Memorial Institute (*id.* at 5a). Battelle subsequently invented and patented many vital improvements in the xerography process (*ibid.*). As had Carlson, Battelle also experienced difficulty in securing financial support for commercial application of the process—between 1944 and 1947 it was rebuffed by 36 companies, including IBM (*ibid.*). The only company willing to invest in development of the copying process was Xerox (originally known as the Haloid Company). In a series of four agreements with Battelle, Xerox eventually acquired complete title to the "Carlson-Battelle patents" (*id.* at 5a-9a).

The 1956 agreement—the agreement whose antitrust legality is now at issue—transferred title to the four basic Carlson-Battelle patents to Xerox and abrogated Xerox's obligation, contained in prior agreements, to use diligent efforts to secure sublicensees (Pet. App. 8a-9a).[1] The agreement also gave Xerox an exclusive license to additional Carlson-Battelle patents; it provided that Xerox would acquire title to those patents in 1959; and it gave Xerox the right to receive all future xerography patents and

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[1]The first agreement, in 1947, gave Xerox a nonexclusive, nonassignable license to use the Carlson-Battelle patents for equipment making up to twenty copies of a document. In return, Xerox was to pay an 8% royalty to Battelle, to sponsor $25,000 of xerographic research a year at Battelle (which agreed not to do xerographic research for anyone other than Xerox), and to grant back to Battelle royalty-free rights to any xerography patents Xerox developed. In 1948, Xerox's license was made exclusive and the 20-copy limit was removed. Xerox was required, however, to use diligent efforts to sublicense the Carlson-Battelle patents (Pet. App. 5a-9a).

know-how developed by Battelle, so long as Xerox continued to sponsor at least $25,000 of Battelle research annually. In return, Battelle received 55,000 shares of Xerox stock and the right to a percentage of Xerox's 1959-1965 profits (*ibid.*).

In 1960, Xerox brought its first automatic plain paper copier to market (Pet. App. 10a).

2. The case was tried to a jury in the United States District Court for the District of Connecticut from June 1977 through August 1978 (Pet. App. 42a-43a). In special verdicts, the jury found that the relevant product market (convenience office copiers) and submarket (plain-paper copiers) alleged by SCM did not exist in 1964,[2] but that the alleged market and submarket had come into existence by 1969 (Pet. App. 13a, 112a-113a). The jury found that, as of 1964 and 1969, the 1956 Xerox-Battelle agreement violated Section 1 of the Sherman Act and Section 7 of the Clayton Act and that, as of 1969, Xerox had willfully acquired or maintained monopoly power in violation of Section 2 of the Sherman Act (Pet. App. 14a, 113a, 117a-118a, 121a-123a).[3] The jury calculated SCM's damages from this "1969 exclusion" as $11.5 million in lost profits and $25.6 million in lost going concern value (Pet. App. 14a-15a, 125a-126a).[4]

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[2]Because of questions concerning the statute of limitations, SCM's exclusion claims were bifurcated for submission to the jury. Accordingly, the jury returned separate verdicts relating to the 1969 exclusion claim (as to which there were no statute of limitations issues) and to the 1964 exclusion claim (see Pet. App. 13a n.5, 43a-46a).

[3]The jury also found that, as of 1964, SCM lacked the intention, preparedness, and capability to enter the plain-paper copier market (Pet. App. 13a, 115a).

[4]The jury also found that one of Xerox's marketing plans, known as "MUP," violated Section 3 of the Clayton Act, 15 U.S.C. 14, and Section 2 of the Sherman Act, 15 U.S.C. 2, and that MUP had caused SCM $230,874 in damages (Pet. App. 15a). After trial, the district court

On Xerox's motion for judgment n.o.v., the district court entered judgment in December, 1978, dismissing all of SCM's damage claims (Pet. App. 41a-127a). While the court questioned whether SCM had proved an antitrust violation and whether there was sufficient evidence to support the jury's damage verdict, it did not base its dismissal of the damage claims on the absence of violation or damage. Rather, it concluded that Xerox could not be liable for money damages for any injury suffered as a result of the 1956 acquisition or of Xerox's subsequent unilateral refusal to license its patents, without undercutting federal patent policy (Pet. App. 69a-70a, 78a-79a, 95a-99a). The district court's opinion did not reach the issue of equitable relief.[5]

3. The court of appeals affirmed the district court's holding that SCM was not entitled to damages on its 1969

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dismissed this claim and the dismissal was affirmed on appeal (Pet. App. 37a-39a). The marketing plans are not relevant to the issues raised in the petition.

[5]The district court entered judgment for Xerox pursuant to Fed. R. Civ. P. 54(b) on all claims except the 1969 exclusion claim. On that claim, the court indicated that it intended its rejection of the damage aspect of SCM's claim to be final but, "[t]o whatever extent a reviewing court may conclude that the dismissal of SCM's claim for money damages on its 1969 exclusion claim and the dismissal of all its other antitrust claims lack finality, the rulings dismissing such claims on the merits are hereby certified for appeal pursuant to 28 U.S.C. §1292(b)." Pet. App. 111a.

The court of appeals remanded SCM's initial appeal, ordering the district court to clarify "whether the District Court intended to hold that Xerox was 'liable' on the post-1969 claim but that money damages were not available as a remedy, or whether the court merely decided that money damages were not a remedy, without deciding the issue of liability" (Pet. App. 129a-131a). The district court responded that no decision has been made with respect to Xerox's liability; it had determined only that, even if Xerox were liable, SCM could not recover money damages (Pet. App. 133a-141a).

exclusion claim, but it did so because it found no violation of the antitrust laws (Pet. App. 1a-40a).[6]

The court of appeals began by rejecting as inconsistent with the patent laws SCM's contention that monopoly status as such obligates a patent holder to license its patents: "No court has ever held that the antitrust laws require a patent holder to forfeit the exclusionary powers inherent in his patent the instant his patent monopoly affords him monopoly power over a relevant product market" (Pet. App. 20a). At the same time, the court stressed that "[p]atent *acquisitions* are not immune from the antitrust laws" (*id.* at 22a; emphasis in original). Thus it concluded that the only antitrust issue before it was the legality of the patent acquisitions because: "where a patent has been lawfully acquired, subsequent conduct permissible under the patent laws cannot trigger any liability under the antitrust laws" (*id.* at 25a).

In addressing this question the court of appeals held that SCM was not entitled to damages because, as a matter of law, the 1956 agreement was not an antitrust violation.

First, the court held that SCM's Section 2 claim based on the 1956 patent acquisition was foreclosed by the absence of market power at the time of the acquisition (Pet. App. 28a; emphasis partially in original):

> In scrutinizing acquisitions of patents under § 2 of the Sherman Act, the focus should be upon the market power that will be conferred by the patent *in relation to the market position then occupied by the acquiring party*. * * * Therefore, that Xerox acquired the patents

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[6]The court of appeals specifically noted that it was not "passing upon the validity of Judge Newman's theory to preclude antitrust damage liability in all cases where the injury is predicated upon a patent holder's refusal to license" (Pet. App. 25a).

in this case four years prior to the production of the first plain-paper copier and at least eight years prior to the appearance of the relevant product market and submarket over which those patents eventually afforded it monopoly power would seem to dispose entirely of SCM's 1969 exclusion claim under § 2.

The court rejected as inconsistent with the policies of the patent laws SCM's argument that "where the commercial success of a patented invention virtually is guaranteed, no person other than the inventor can hold exclusive rights to the patent, at least where it is foreseeable that the products generated under the patent will create their own relevant product market" (Pet. App. 29a). It also held that, since the patent acquisition itself was lawful, "Xerox's subsequent unilateral refusal to license the Carlson and Battelle patents * * * was permissible under the patent laws and, therefore, did not give rise to any liability under § 2" (*id.* at 30a). In addition to noting the absence of a relevant market at the time of the acquisition, the court deemed it significant that "Xerox contributed in a very substantial way to the development of an automatic plain-paper copier by investing in research and development" and that "the party from whom Xerox purchased the patent under the 1956 agreement was not a potential competitor" (*ibid.*).

Second, the court of appeals held that, as a matter of law, the 1956 agreement did not unreasonably restrain trade in violation of Section 1 at the time it was executed[7] " 'because there was no competition in any convenience-office copier or plain-paper copier embodying the patented inventions' in [1956 or 1959]" (Pet. App. 31a). The court rejected

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[7]The court noted that it was not deciding the reasonableness of Battelle's continuing obligation to assign xerography patents and know-how to Xerox since "SCM offered no evidence at trial that any of the patents Xerox obtained from Battelle after January 2, 1959 caused it any harm" (Pet. App. 32a).

as inconsistent with the patent laws SCM's argument that the 1956 agreement was an unreasonable restraint of trade in that "it gave to Xerox absolute exclusionary power, rather than that amount of power reasonably necessary to induce Xerox to continue its efforts to commercialize xerography" (*ibid.*).

Finally, the court of appeals held that there was no violation of Section 7 of the Clayton Act. The court recognized that a patent is an "asset" the acquisition of which is subject to scrutiny under that Section (Pet. App. 33a). But the court rejected SCM's argument that the prospective nature of Section 7 analysis permitted imposition of antitrust liability based on the jury's finding that the *probable* effect of the 1956 acquisition was to create a monopoly in a product market that did not exist until at least eight years later. Rather, "the speculative aspect of [Section 7] was intended [by Congress] to allow courts to appreciate immediately the potential consequences that a particular acquisition might have upon an *existing* line of commerce. * * * The existing market provides the framework in which the probability and extent of an adverse impact upon competition may be measured" (*id.* at 34a; emphasis in original; citation omitted). Since the relevant market did not exist at the time of the acquisition, Xerox could have had no power in that market. Therefore, the court held, the agreement did not violate Section 7.

In concluding that there was no Section 7 violation, the court of appeals also rejected SCM's argument that this Court's decisions in *United States* v. *E.I. du Pont de Nemours & Co.*, 353 U.S. 586 (1957) ("*du Pont-GM*") and *United States* v. *ITT Continental Baking Co.*, 420 U.S. 223 (1975), allowed the jury to find a Section 7 violation based on the effects of Xerox's continued holding of the patents acquired under the 1956 agreement. Without passing on the scope of Section 7 as interpreted in *du Pont-GM* in other

contexts, the court held that the patent laws preclude a finding that the mere holding of a validly acquired patent may spawn antitrust liability (Pet. App. 35a-36a).

ARGUMENT

The court of appeals' decision does not conflict with any decision of this Court or any other court of appeals. Moreover, the court of appeals adopted and applied the correct legal principles for judging the antitrust legality of Xerox's patent acquisition and reached the correct result on the record before it. Consequently, review by this Court is not warranted.

Based on the jury findings, SCM's claim is limited to the question whether Xerox's unilateral refusal to license its patents may run afoul of the antitrust laws solely because the patents were acquired rather than the product of Xerox's own invention. The court of appeals correctly held that this conduct was not unlawful in light of the long-settled principle that a patentee has no obligation to share his statutory grant of exclusivity. Nor is there any ground for creating an exception to this rule merely because the patent holder acquired his rights by assignment rather than invention. As the patent laws expressly provide, a "patentee, his heirs or assigns" stand in the same position and are accorded identical rights. See 35 U.S.C. 154.

The decision below is further supported by the fact that at the time of the acquisition Xerox possessed no power in any copier market, let alone in the relevant markets which had not yet come into existence. Thus, SCM's claim is that the 1956 agreement, even though lawful when made, should be excepted from the established rule of patent law to create antitrust liability for Xerox's subsequent unilateral, and otherwise lawful, conduct. The court of appeals correctly rejected this claim.

1. The court of appeals held that an asset acquisition by a company having no power in the relevant market at the time of the acquisition does not violate Section 1 or 2 of the Sherman Act or Section 7 of the Clayton Act. This conclusion is consistent with established antitrust law and sound economic analysis, and does not constitute the creation of a special rule for patents.[8] Indeed, the court of appeals emphasized that patent acquisitions are *not* exempt from the antitrust laws (Pet. App. 22a), and its holding was based on general antitrust analysis that would apply to any asset acquisition. Thus, Xerox's lack of power in any relevant market at the time of the acquisition—and not the fact that the acquired assets were patent rights—was the critical factor in the court of appeals' determination that the acquisition was legal.

a. As the court of appeals recognized, a purchase of any asset may be illegal under the antitrust laws if it unreasonably restrains trade (Section 1 of the Sherman Act), if it assists the acquiring company to acquire or maintain monopoly power (Section 2 of the Sherman Act), or if it may substantially lessen competition or tend to create a monopoly (Section 7 of the Clayton Act). Under all of these

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[8]Petitioner's argument that the court has created a new implied exemption from the antitrust laws ignores the essential distinction between a holding that a defendant is not subject to the antitrust laws because of an exemption and a holding that there is no antitrust liability because the plaintiff has failed to prove one or more of the essential elements of its case. The court of appeals properly adopted the latter approach. Thus, petitioner's argument that antitrust exemptions are not to be implied in the absence of a convincing showing of clear repugnancy to some other federal law (Pet. 10-18), while a correct statement of the general legal principle governing implied immunity (*National Gerimedical Hospital & Gerontology Center* v. *Blue Cross of Kansas City*, No. 80-802 (June 15, 1981)), is irrelevant to this case.

statutory provisions, the legality of the challenged acquisition depends in part on the market power of the defendant.[9] When the parties to an agreement are without market power, the purpose and, more importantly, the economic effect, if any, of their agreement can be presumed to be to increase efficiency—thereby promoting consumer welfare—for they cannot eliminate competition between themselves, unduly enhance the value of one of their technologies,[10] or restrict output in any way. See R. Bork, *The Antitrust Paradox* ch. 10 (1978); L. Sullivan, *Antitrust* § 204 (1977).

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[9]See, *e.g.*, *United States* v. *Realty Multi-List, Inc.*, 629 F. 2d 1351, 1372-1374 (5th Cir. 1980) (Section 1); *Berkey Photo, Inc.* v. *Eastman Kodak Co.*, 603 F. 2d 263, 274-275 (2d Cir. 1979), cert. denied, 444 U.S. 1093 (1981) (Section 2); *United States* v. *Philadelphia National Bank*, 374 U.S. 321, 363-366 (1963) (Section 7). See also *Merger Guidelines of Department of Justice*, 1 Trade Reg. Rep. (CCH) para. 4510, at 6882 § 3 (1968).

Unfortunately, the court of appeals' repeated reference to the jury's finding that the product market allegedly monopolized by Xerox did not exist until at least eight years after the acquisition may cause confusion in subsequent cases. The critical factor is not when plain paper copiers developed sufficient superiority to be deemed to constitute a separate market, but whether Xerox had sufficient power in any copier market at the time of the acquisition. Since the evidence does not suggest that Xerox had any market power—much less sufficient power to render the acquisition anticompetitive—the fact that its ownership of the acquired patents later allowed it to achieve and maintain monopoly power should be irrelevant. Conversely, if Xerox had had substantial power in a broad copier market at the time of the acquisition, acquisition of a valuable patent might have violated Section 7 of the Clayton Act and in that event monopoly power later achieved as a result of an illegal acquisition would have violated Section 2 of the Sherman Act.

[10]The objective of the antitrust laws with respect to patent acquisitions is to make certain that the patentee does not gain more from the transfer than the incremental value of its invention over the next best technology. That is the measure of its contribution to society, and the patent and antitrust laws should not be enforced to deprive the patentee of that value. By the same token, patent policy would not be served and antitrust policy would be offended if the patentee were able to acquire

Experts may disagree about how large a market share is sufficient to justify the conclusion that a particular acquisition will be, on balance, anticompetitive, *i.e.*, that the decrease in consumer welfare resulting from restriction of output by the parties is likely to exceed any increase in consumer welfare resulting from increased efficiency. But no output restriction, and therefore no anticompetitive effect, can result from the transfer of an asset when at the time of the transfer neither party has any market power. Thus, since it is not disputed that neither Xerox nor Battelle had power in any relevant market at the time of the acquisition, the court of appeals was correct in holding that the

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greater value than it contributes, *i.e.*, greater than the improvement over the best available substitute, by suppressing rival technology.

To put this principle in a market context, it may be helpful to consider the consequences of an acquisition of a patented technology "superior" to rival technologies. Ordinarily, the value conveyed by the patent is the commercial difference between the "superior" technology and the "second best" technology. This is the value the patent grant is intended to convey. If, however, a company acquires both the "superior" technology and the "second best" technology, the value of the patent is increased: it then becomes the difference between the "superior" technology and the "third best" technology and the acquirer is in a position to suppress one of the rival technologies. It is this incremental value, attributable to the elimination of a competitive alternative, that the patent laws do not entitle such company to capture, and the acquisition of that increment could violate Section 7 or Section 2.

In this case, Xerox did not have any significant technology position (market power) at the time of the acquisition. Consequently, Battelle received a price which reflected only the parties' estimates of the potential commercial value of the patents. Since Xerox possessed no technology position which would be suppressed, the transfer did not add any market power value to the patents transferred. Moreover, as the jury expressly found, Xerox did not obtain patents from the Patent Office primarily to block competitors (Pet. App. 118a). Thus, on the record presented, this is not a case involving suppression of rival technologies through acquisition.

acquisition at issue was not anticompetitive.[11] Indeed, since it appears that the buyer but not the seller had the other

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[11]SCM attempts to avoid this conclusion by characterizing the acquisition as one that eliminated "potential competition." The "potential competitor," however, was not asserted to have been Battelle itself, but some unnamed "others" who, SCM suggests, might have been licensed by Battelle or Xerox if Xerox had not acquired the patents. SCM thus attempts to extend the potential competition theory far beyond its proper bounds. It is necessary, even in a potential competition case, to define the area of competition, to identify the potential competitors, to show why they are (or are perceived as) likely entrants, and to show why independent entry would have improved competition in the market. And even where both parties to the merger or joint venture are potential entrants (*e.g., United States* v. *Penn-Olin Chemical Co.*, 378 U.S. 158 (1964)), the competitive effect is assessed with reference to particular potential entrants and their abilities to promote competition through independent entry. In this case, the jury found that as late as 1964 SCM lacked the intention, preparedness and capability to enter the market (Pet. App. 115a). In addition, SCM's contention that, but for Xerox's acquisition of the patents, other companies would have been licensed is undercut by the fact that prior to the 1956 agreement several requests for licenses were denied (Pet. App. 7a).

Moreover, SCM's claim that potential competition was eliminated by the 1956 acquisition is based on an economic assumption that seems incorrect both as a general rule and on the facts of this case. There is no reason to believe that if Battelle had retained the patents it would not have granted an exclusive license to Xerox rather than granting multiple licenses as SCM contends. Any patent holder (regardless of whether it is the inventor or a subsequent purchaser) unable efficiently to undertake its own development, manufacturing and distribution, has the economic incentive to select the licensing method that it believes will maximize its own profit. And it is the nature of the perceived obstacles to optimal exploitation of the patent that determines whether exclusive or multiple licenses will best serve this objective. For example, if significant additional product development investment remains necessary, a patentee might choose to grant an exclusive license because of concern that the free rider effect otherwise would deter any licensee from making the necessary development investment. Conversely, if the product already is developed to the point of imminent commercial exploitation and needs only a broad distribution system to maximize returns, the patentee might prefer multiple licensing. Under the law, the patent holder has the exclusive right to decide which course to follow.

resources necessary to develop the asset, the likely result of the transfer was increased efficiency.

b. There was no error in the court of appeals' refusal to consider whether any efficiencies resulting from Xerox's acquisition of the patents could have been obtained by a less restrictive agreement, *e.g.*, a nonexclusive license.[12] Indeed, there are at least three reasons why such inquiry was both unnecessary and inappropriate in this case. First, since both parties' lack of market power in 1956 made it impossible for the transfer of patent rights from Battelle to Xerox to impair competition in any way, there was no need to make *the transfer* "less restrictive."

Second, the antitrust laws impose no general obligation to share one's assets with competitors even if it is "reasonably foreseeable" that exclusive ownership will contribute to monopoly power.[13] The fact that a transfer of assets has taken place does not justify an attempt by a court to impose a "least restrictive alternative" test on an otherwise legal *use* of assets, where the transfer itself has no anticompetitive effect and the subsequently attained monopoly power is not attributable to any unlawful practice.

The inherent uncertainties of a "least restrictive alternative" test make it an inappropriate standard under the antitrust laws, particularly when applied retroactively as SCM

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[12]SCM maintains that Xerox could have obtained a *non*exclusive license to the Carlson-Battelle patents or acquired the patents under an agreement obligating it to license others to use them, and that its failure to do so can subject it to antitrust liability under a "Rule of Reason" test (Pet. 17-8).

[13]Although a monopolist abuses its monopoly power if it discriminates against its competitors in another market (*e.g.*, *Eastman Kodak Co.* v. *Southern Photo Materials Co.*, 273 U.S. 359 (1927); *United States* v. *Aluminum Co. of America*, 148 F. 2d 416 (2d Cir. 1945); *Otter Tail Power Co.* v. *United States*, 410 U.S. 366 (1973)); no case has premised antitrust liability on a single party's refusal to share the assets of a lawfully acquired monopoly.

urges here. See *American Motor Inns, Inc.* v. *Holiday Inns, Inc.*, 521 F. 2d 1230, 1249-1250 (3d Cir. 1975);[14] *Newberry* v. *Washington Post Co.*, 438 F. Supp. 470, 474-476 (D.D.C. 1977). While the availability of less restrictive means of achieving a legitimate business goal may be a relevant factor in determining the existence of either anticompetitive intent or effect (see *White Motor Co.* v. *United States*, 372 U.S. 253, 270-272 (1963) (Brennan, J., concurring); *Berkey Photo, Inc.* v. *Eastman Kodak Co.*, *supra*, 603 F. 2d at 303), the existence of such an alternative does not in itself prove that the means selected were either excessive or anticompetitive.

Third, as the court of appeals correctly recognized, the right to exclusive use of a patent for its statutory term and the right to transfer that exclusivity are rights conferred on the patentee and his assigns by the patent laws. 35 U.S.C. 154, 261 and 271; *Zenith Radio Corp.* v. *Hazeltine Research, Inc.*, 395 U.S. 100, 135-136 (1969). The test urged by SCM—which would make a patent acquisition illegal if it was foreseeable that the patent would contribute to a future monopoly—would diminish significantly the value of the statutory right to transfer patent exclusivity.[15]

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[14]The Third Circuit discussed the following pitfalls of this test (521 F. 2d at 1249-1250):

> Application of the rigid "no less restrictive alternative" test in cases such as this one would place an undue burden on the ordinary conduct of business. Entrepreneurs * * * would then be made guarantors that the imaginations of lawyers could not conjure up some method of achieving the business purpose in question that would result in a somewhat lesser restriction of trade. And courts would be placed in the position of second-guessing business judgments as to what arrangements would or would not provide "adequate" protection for legitimate commercial interests.

[15]To be sure, the application of Section 7 of the Clayton Act to patent acquisitions limits to some extent the value of a patent holder's right to transfer the patent. See note 10, *supra*. But the diminution is limited because, in our view, the question of antitrust legality can be ascertained

Moreover, it could discourage optimal use of some potentially valuable patents. It would do this by creating an entirely unpredictable risk of substantial antitrust liability that would have to be assumed by anyone who sought exclusive rights in order to obtain a return high enough to compensate for investment in patents that are expensive or risky to develop.

What SCM seeks is, in effect, a broad *implied exception* to the right to exclusive use conferred by the patent laws. This exception would spring into effect—and have retroactive application by creating antitrust liability for past conduct—whenever exclusive rights to a patented process or product contribute to the acquisition or maintenance of monopoly power by anyone other than the original patentee. Petitioner's position unduly denigrates the important role played in the innovative process by those, other than the inventor, who invest their money and energy to bring inventions to practical application, and who promote their

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at the time of transfer, either by relying on the advice of counsel or by obtaining an opinion from government enforcement agencies. The "foreseeability" test urged by petitioner, by contrast, would leave the potential purchaser subject to risk for an indeterminate period and thus more sharply reduce the value of the right to transfer. Moreover, except in highly unusual circumstances, any findings concerning whether the emergence of a particular market and the effect of a particular patent on that market were "foreseeable" many years earlier would necessarily be based largely on speculation.

Where a legally acquired patent is subsequently misused in a manner inimical to the antitrust laws—such as patent-pooling leading to cartelization, which does involve the combination and suppression of technologies—appropriate remedies remain available under Sections 1 and 2 of the Sherman Act. See, *e.g.*, *United States* v. *Singer Manufacturing Co.*, 374 U.S. 174 (1963); *Timken Roller Bearing Co.* v. *United States*, 341 U.S. 593 (1951). Thus, the validity of the acquisition under Section 7 of the Clayton Act provides no continuing immunity in cases of subsequent misuse. In the present case, however, the jury found the acquisition to be the *sole* patent-related conduct on which it based liability.

commercial success, thereby creating the market that is the source of reward to the actual inventor.[16] SCM cites nothing in the language or legislative history of either the Patent Act or the antitrust laws that indicates congressional intent to prohibit the use of a patent monopoly to develop an economic monopoly or to limit the right to exclusive use to the original patentee, as distinguished from subsequent holders. Indeed, the patent law expressly negates such a distinction by providing that the benefit of exclusivity is granted to a "patentee, his heirs or assigns." 35 U.S.C. 154.

Nor is any such limitation on the rights of a subsequent holder created by implication from the antitrust laws. In terms of competitive effect, it makes no difference whether the inventor (which in this case was not Battelle, but Carlson) or a marketing firm unilaterally exercises the monopoly power conferred by the patent laws. SCM found itself in 1969 in precisely the same position it would have been in if the inventor had acted just as Xerox did.[17] Since such conduct by the inventor would have been unassailable under the antitrust laws, SCM suffered no "antitrust injury" resulting from Xerox's unilateral actions. See *Brunswick Corp.* v. *Pueblo Bowl-O-Mat, Inc.*, 429 U.S. 477, 487-489 (1977).

2. The court of appeals correctly concluded that holding and using in an otherwise legal manner a validly acquired

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[16]The court of appeals appropriately pointed out (Pet. App. 23a n.9) that a patent policy that benefits the public is dependent not just on inventive genius, but also on those willing to finance and promote commercial utilization of new products.

[17]Indeed, here the jury found that prior to March 11, 1969, it was not possible to make a commercially reliable xerographic plain-paper copier without infringing one of the original Carlson patents Xerox acquired in 1956 (Pet. App. 80a n.33, 117a).

patent does not violate the antitrust laws.[18] Therefore, as the court recognized, where a patent acquisition itself is lawful, antitrust liability cannot be based *solely* on the fact that the holder of the acquired patents subsequently achieved monopoly power attributable to its exercise of rights to exclusivity granted by the patent statutes.[19]

While the Carlson-Battelle patents obviously were a major factor in Xerox's success, the transfer of the patent rights did not have an anticompetitive effect because it did not increase the exclusionary power conferred by the patent laws. Nor was this power used in a manner that expanded the statutory grant of exclusivity. Moreover, as is evident from the inability of Carlson and Battelle to interest others in the patents, acquisition of the patents did not automatically give Xerox monopoly power. Substantial internal development was required and even if such development

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[18]Contrary to SCM's contention (Pet. 22-25; Reply Br. 7), the court of appeals' decision does not conflict with the result in *du Pont-GM*, *supra*. That was a case in which the anticompetitive danger of the original acquisition of a controlling stock interest in a customer by a supplier was demonstrated by subsequent conduct between the two firms. See 5. P. Areeda & D. Turner, *Antitrust Law* paras. 1205a, c and d (1980). If an acquisition clearly is legal when made, however, to hold it illegal retroactively because of subsequent internal growth or lawful unilateral exercise of patent exclusivity would penalize the very conduct that the antitrust laws were designed to promote.

We do not read the court of appeals' opinion to hold that Xerox would have been immune from antitrust liability if post-acquisition patent-related conduct evidenced the anticompetitive potential of the acquisition at the time of consummation. In this case the jury found no such conduct.

[19]SCM also contends (Pet. 24) that Xerox unreasonably maintained monopoly power by refusing to license its patents to SCM. The court of appeals properly viewed the refusal to license as being within the exclusivity conferred by the patent laws. (This is not to suggest, however, that licensing could not be required if a patent acquisition or subsequent patent-related conduct were illegal.)

results in monopoly power, it is not condemned by the antitrust laws. *United States* v. *Grinnell Corp.*, 384 U.S. 563, 570-571 (1966).

CONCLUSION

The petition for a writ of certiorari should be denied.

Respectfully submitted.

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FEBRUARY 1982

DOJ-1982-02